

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 SAM-01 CIAE-00 COME-00 FRB-03

INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 DRC-01

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SUBJ: REMARKS MADE BY MINISTER OF FINANCE ON
PORTUGUESE ECONOMY

REFS: (A) LISBON 3196; (B) LISBON 2858; (C) LISBON 3170

SUMMARY: THIS CABLE REPORTS REMAKRS BY THE NEW
MINISTER OF FINANCE ON VARIOUS PROBLEMS FACING THE
PORTUGUESE ECONOMY, NOTABLY A DECLINE IN THE BALANCE
OF PAYMENTS AND INCREASES IN INFLATION AND
UNEMPLOYMENT. END SUMMARY.

1. IN PRIVATE CONVERSATIONS LAST WEEK THE NEW
MINISTER OF FINANCE JOSE DA SILVA HOPES
MADE THE FOLLOWING REMARKS ABOUT THE PORTUGUESE
ECONOMY:

A. BALANCE OF PAYMENTS-THE GOP IS CONCERNED
BY THE BALANCE OF PAYMENTS SITUATION. DURING
THE FIRST PART OF THE YEAR (PRESUMABLY THE FIRST
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HALF) PORTUGAL RECORDED A DEFICIT OF AROUND

DOLS 360 MILLION AS COMPARED TO A SURPLUS OF
DOLS 320 MILLION AT THE SAME TIME LAST YEAR. THIS
TURNAROUND IS ATTRIBUTABLE, INTER ALIA, TO THE FOLLOWING:

(1) IMPORTS, BY VALUE, ARE INCREASING FASTER THAN
EXPORTS.

(2) EMIGRANT REMITTANCES ARE DOWN. (NOTE: SILVA
LOPES INDICATED THAT THEY ARE RECOVERING, A FACT
CONFIRMED BY A COMMERCIAL BANKER AND BY PRESS
REPORTS TO THE EFFECT THAT JUNE REMITTANCES WERE
GREATER THAN THOSE OF THE YEAR BEFORE.)

(3) SOME CAPITAL FLIGHT DESPITE GOVERNMENT CONTROLS
DESIGNED TO PREVENT IT.

(4) DECLINE IN TOURISM BECAUSE OF A GENERAL SLUMP
IN INTERNATIONAL TRAVEL AND BECAUSE OF THE CHOLERA
SCARE IN PORTUGAL.

B. EXCHANGE RESERVES-PORTUGAL'S WORRIES ABOUT ITS
BALANCE OF PAYMENTS DECLINE IS TEMPERED BY THE FACT
THE COUNTRY'S EXCHANGE RESERVES ARE LARGE. NEVERTHELESS,
THE GOP INTENDS TO NEGOTIATE SOME INTERNATIONAL LOANS
TO BOLSTER ITS EXCHANGE POSITION. THE GOP IS
CURRENTLY HOLDING TALKS WITH U.S. AND EUROPEAN BANKS
AND HOPES TO SIGN AGREEMENTS WITH THEM
SHORTLY (SEE REF A).

C. INFLATION-INFLATION CONTINUES TO BE A MAJOR
CONCERN. IN MAY 1974 PRICES WERE 30 PER CENT HIGHER THAN IN
MAY 1973: 27 PER CENT HIGHER IN JUNE 1974 THAN IN JUNE 1973.
THE HIGH INFLATION RATE IS CAUSED TO A LARGE EXTENT BY
INCREASED PRICES FOR IMPORTED GOODS AND BY
DOMESTIC SUPPLY BOTTLENECKS, PARTICULARLY IN AGRICULTURE.

D. LEGISLATION-SOME OF THE ECONOMIC LEGISLATION ANNOUNCED
BY FORMER MINISTER OF ECONOMIC COORDINATION VIEIRA DE
ALMEIDA ON JULY 5 (SEE REF B) WILL APPEAR SHORTLY.
IT IS DOUBTFUL THAT LABOR LEGISLATION, THE LEGAL DEADLINE
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FOR WHICH IS JULY 31, WILL APPEAR BEFORE MID-AUGUST.
IN GENERAL, LEGISLATION WILL BE HANDLED MORE EXPEDITIOUSLY
BY THE NEW CABINET THAN IT WAS BY THE OLD, PRIMARILY
BECAUSE HALF THE MEMBERS ARE MILITARY WHO TEND TO THINK
ALIKE AND BECAUSE THE CIVILIAN MEMBERS ARE NOT LIKELY TO
BE AS CONTENTIOUS IN THE FACE OF THIS SOLID MILITARY PHALANX.

E. LABOR PROBLEMS--THE GOVERNMENT IS VERY CONCERNED

ABOUT RISING UNEMPLOYMENT. WHILE RECOGNIZING THAT THE CONSTRUCTION SECTOR HAS BEEN HARDER HIT THAN MOST, THE GOVERNMENT IS MORE CONCERNED ABOUT OTHER SECTORS, WHICH, UNLIKE CONSTRUCTION, ARE NOT SUSCEPTIBLE TO IMPROVEMENT THROUGH GOVERNMENT ACTIONS SUCH AS CREDIT STIMULATION AND GOVERNMENT WORKS PROJECT. THE GOP IS PARTICULARLY WORRIED ABOUT DISMISSALS IN FACTORIES AND PLANTS FOR WHICH THE GOVERNMENT HAS NO READY ALTERNATIVE EMPLOYMENT.

2. COMMENT: THE ABOVE REMARKS CONTAIN FEW NEW INSIGHTS INTO THE PORTUGUESE ECONOMY, BUT THEY DO SHOW SOME OF THE PROBLEMS AS SEEN BY ONE OF THE MEN WHO WILL BE HELD RESPONSIBLE FOR ITS SUCCESSES AND FAILURES. PARTICULARLY NOTEWORTHY IS HIS CONCERN ABOUT UNEMPLOYMENT. AS AMERICAN FIRMS HERE ARE BEGINNING TO LEARN (E.G. APPLIED MAGNETICS-SEE REF C) THE GOVERNMENT DOES NOT LOOK HAPPILY ON INDUSTRY MOVES WHICH ENTAIL WORKER DISMISSALS.
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